

ENERGY AND UTILITIES

Overview

Background. Several agencies play a role in developing, implementing, and managing the state's energy-related policies. These include:

- **California Energy Commission.** This is the state's primary policy and planning agency in the energy area.
- **California Public Utilities Commission.** The commission is involved with various energy-related regulatory activities.
- **Electricity Oversight Board.** Its responsibilities include monitoring the state's electricity market.
- **California Power Authority.** This entity was created during the state's 2001 electricity crisis to finance new electricity generation and assure an adequate electricity supply for the state. This agency is currently defunct.
- **California Energy Resources Scheduling Division within the Department of Water Resources.** This is the entity that currently purchases electricity for the state on behalf of the state's three largest investor owned utilities (IOUs).
- **California Independent System Operator (ISO).** The ISO is a not-for-profit corporation that was created by the state when it deregulated its wholesale electricity industry in 1996. The ISO is not considered a state agency, but was created by the Legislature and is governed by a board of gubernatorial appointees. However, its activities are regulated by the federal government. The ISO is charged with managing the majority of the state's electricity transmission system, in order to ensure competitive access to the grid by all electricity sellers. It also seeks to ensure that the power grid is safe and reliable.

Highlights

Department of Energy. The Governor is sponsoring legislation to reorganize the existing energy departments and create a new Department of Energy. This proposal is similar to the Governor's 2005 executive reorganization proposal. The new department will be responsible for the following activities:

- Transmission line siting.
- Representation before the Federal Energy Regulatory Commission.
- Development of public interest energy research on renewable energy technology.
- Petroleum fuels supply and demand analysis.
- Natural gas supply and electricity demand forecasting.
- Renewable energy portfolio standards program.
- Energy efficiency standards.

Issues

Department of Energy. The Governor is proposing legislation to reorganize the state's energy agencies. The Legislature may wish to evaluate this proposal to determine whether the proposed structure provides enhanced efficiencies in implementing state energy policies and enhanced protections for California energy consumers.

3360 California Energy Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

Governor's Budget. The Governor's Budget proposes \$310 million to support CEC in 2006-07. The proposed budget is approximately 26 percent less than estimated expenditures in the current year due to accumulated renewable energy funding expended in the current year to help implement the renewable portfolio standard. The department does not receive any General Fund support.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
Regulatory and Planning	\$25,775	\$26,179	\$404	1.6
Energy Resources Conservation	26,504	22,880	-3,624	-13.7
Research and Development	383,203	279,758	-103,445	-27.0
Administration	11,551	13,082	1,531	13.3
<i>less distributed administration</i>	<i>-11,551</i>	<i>-13,082</i>	<i>-1,531</i>	<i>0.0</i>
<i>less loan repayments</i>	<i>-1,883</i>	<i>-1,133</i>	<i>750</i>	<i>0.0</i>
Total	\$433,599	\$327,684	-105,915	-24.4
Funding Source				
General Fund	\$0	\$0	0	0.0
Special Funds	417,635	309,961	-107,674	-25.8
<i>Budget Act Total</i>	<i>417,635</i>	<i>309,961</i>	<i>-107,674</i>	<i>-25.8</i>
Federal Funds	10,211	11,978	1,767	17.3
Reimbursements	5,753	5,745	-8	-0.1
Total	\$433,599	\$327,684	-105,915	-24.4

Highlights

Alternative Fuels Development. The Governor's Budget proposes \$500,000 special funds for the CEC to implement recently enacted legislation (AB 1007, Pavley), which requires the development of recommendations to increase the use of alternative fuels in the transportation sector.

Climate Change Initiative. The Governor's Budget proposes \$612,000 to support four positions and \$200,000 in contracts to implement the Governor's greenhouse gas emission reduction targets. These funds will be used to establish an energy policy, develop a statewide greenhouse gas inventory, and implement a comprehensive climate change science program to support greenhouse gas emission reductions.

Public Purpose Natural Gas Research. The Governor's Budget proposes \$504,000 to support five new positions to identify, develop and manage energy-related research projects that benefit natural gas ratepayers. These funds will also be used to implement recent legislation (SB 76, Ch. 91/2005) to fund transportation-related research that provides a benefit to natural gas ratepayers.

Verification of Energy Efficiency Savings. The Governor's Budget proposes \$209,000 to fund two new positions to produce independent and verifiable estimates of the net energy and peak savings from investor-owned utility energy efficiency programs. The California Public Utilities Commission (CPUC) recently issued a decision that directs the CPUC, in conjunction with the CEC, to assume responsibility for the evaluation, monitoring and verification of energy savings associated with over \$600 million in annual spending for energy efficiency programs.

Issues

Public Interest Energy Research (PIER) Funds for Transportation Research. Legislation (Ch. 91/2005) was enacted to allow Public Interest Energy Research funds to be expended for transportation-related research. This research is critical to developing new technologies that will reduce the air emissions from the transportation sector. The Legislature may wish to evaluate the steps CEC has taken to implement this new legislation.

Natural Gas PIER Program. SB 76 of 2005 requires that one-half of the new public interest natural gas research funds be expended pursuant to a research program jointly approved by the Air Resources Board and the Commission. Furthermore, the legislation allowed for up to one-third of the funds allocated annually to be expended on transportation-related research. The Legislature may wish to follow up on the implementation of this legislation.

Workload Plan for PIER Program. Legislation (SB 71, Ch. 81/2005) was enacted in 2005 to require that CEC develop a long-term staffing plan for the PIER program. The Legislature may wish to evaluate the plan when it is submitted to determine if staffing changes to the current PIER program are warranted.

3860 Department of Water Resources (California Energy Resources Scheduling Division)

Background. The Department of Water Resources' California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS

division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

Governor's Budget. The Governor's Budget proposes \$5 billion to fund the CERS division of the Department of Water Resources (DWR). This is \$239 million, or 4.5 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
Energy Purchases	\$4,307,880	\$4,072,784	-\$235,096	-5.5
Interest Expense - Revenue Bonds	525,672	525,672	0	0.0
Payment of Principal - Revenue Bonds	409,395	409,990	595	0.1
Administration	32,502	28,202	-4,300	-13.2
Total	\$5,275,449	\$5,036,648	-238,801	-4.5

8660 Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's Budget proposes \$1.2 billion to support CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Type of Expenditure				
Regulation of Utilities	\$350,685	\$364,956	\$14,271	4.1
Universal Service Telephone Programs	858,035	861,420	3,385	0.4
Regulation of Transportation	16,498	17,509	1,011	6.1
Administration	16,435	20,925	4,490	27.3
<i>less distributed administration</i>	<i>-16,435</i>	<i>-20,925</i>	<i>-4,490</i>	<i>0.0</i>
Total	\$1,225,218	\$1,243,885	18,667	1.5
Funding Source				
General Fund	\$0	\$0	0	0.0
Special Funds	1,211,407	1,229,960	18,553	1.5
<i>Budget Act Total</i>	<i>1,211,407</i>	<i>1,229,960</i>	<i>18,553</i>	<i>1.5</i>
Federal Funds	1,119	1,139	20	1.8
Reimbursements	12,692	12,786	94	0.7
Total	\$1,225,218	\$1,243,885	18,667	1.5

Highlights

Telecommunications Consumer Bill of Rights. The Governor's Budget proposes \$10 million special funds to support the Telecommunications Consumer Bill of Rights. The funding will be used to resolve consumer complaints, improve enforcement, and conduct a public outreach campaign to teach people about their rights.

Rail Safety. The Governor's Budget proposes \$1.4 million special funds to enhance rail safety through additional accident investigations, evaluation of quiet zone notices, railroad inspections, and oversight of transit security programs.

Division of Ratepayer Advocates. The Governor's Budget proposes \$154,000 special funds to fund an attorney position within the Division of Ratepayer Advocates, consistent with recently enacted legislation (SB 608, Escutia).